

Service Date: June 5, 1980

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

|  |   |                  |
|--|---|------------------|
| In the Matter of the Application by    | ) | UTILITY DIVISION |
| the GREAT FALLS GAS COMPANY for        | ) |                  |
| authority to adopt increased rates for | ) | Docket No. 6701  |
| natural gas service in the State of    | ) |                  |
| Montana.                               | ) | Order No. 4602b  |

\* \* \* \* \*

AMENDED FINAL ORDER

\* \* \* \* \*

FINDINGS OF FACT

1. By application filed July 27, 1979, the Great Falls Gas Company (GFG or Company) sought authority from this Commission to increase rates and for the approval of tariff charges for natural gas services provided its customers in the state of Montana. The proposed permanent rate charges would generate \$673,715 of additional yearly revenues.
2. Following legal notice, a hearing was held January 8 through January 10, 1980.
3. On January 4, 1980, GFG applied to the Commission for an interim rate increase.
4. On January 28, 1980 the Commission granted an interim rate increase of \$275,311 based on a lifeline rate structure stipulated to by the parties.
5. Through Order No. 4602a, served on May 7, 1980, GFG was authorized to submit rate schedules designed to increase annual revenues by \$414,235.
6. On May 9th and May 15, 1980, GFG and Malmstrom Air Force Base (Malmstrom) filed Motions and Briefs for Reconsideration of Order No. 4602a.
7. Neither motion was answered or rebutted.
8. The motions were considered at the Commission's agenda meetings on May 19th and 27th.

9. The Commission declines to reconsider its order based on points of contention raised by Malmstrom's motion. Its motion contends that "Each housing unit on Malmstrom Air Force Base should be considered a separate 'customer' and granted its own separate 'lifeline' rate." This would be done even though the housing units are not individually metered. The Commission finds that the lifeline or inverted block rate structure is a conservation rate structure, i.e. the first 15 Mcf are priced lower than consumption above this amount. This encourages metered customers to conserve so that their usage is less than 15 Mcf. An unmetered customer would not have the incentive to conserve, however. The Commission, therefore, finds that to extend to Malmstrom's 1,400 housing units the inverted block rate structure would not be consistent with the goal of economic efficiency.

10. The Commission agrees with the contention of Great Falls Gas in its Motion for Reconsideration (page 3) that long-term debt costs were incorrectly calculated in Order No 4602a. For the 1976 industrial revenue bond issue, the corrected cost is \$37,014; the 1979 issue has an annual cost of \$154,792. Both figures include a straight-line amortization of issuance expenses.

Combining these corrected debt costs with the other capital costs found in Order No. 4602a, a cost of capital equal to 10.24% is determined as follows:

| <u>Type of Capital</u> | <u>Amount</u> | <u>Percent of Capitalization</u> | <u>Cost</u> | <u>Weighted Cost</u> |
|------------------------|---------------|----------------------------------|-------------|----------------------|
| Long-Term Debt         | \$2,957,000   | 54.8                             | 7.55%       | 4.14%                |
| Common Stock           | 2,438,000     | 45.2                             | 13.5 %      | 6.10%                |
| TOTAL                  | \$5,395,000   | 100.0                            |             | 10.24%               |

11. GFG contends that the reduction of the common stock or equity portions of its capital structure by \$272,000 for investment in subsidiaries is in error. The Commission finds that Finding of Fact No. 10 in Order No. 4602a addresses this point: "[t]he subsidiaries 'do not contribute to the provision of gas distribution utility service, and retail gas utility customers should not pay the higher return requirements resulting from the subsidiaries'." The Commission, therefore, finds that the adjustment made by Dr. Carolyn Smith is justified.

12. GFG contends that the wrong amount was used to reduce customer accounts expense to reflect the fact that the Company did not hire three additional people it had provided for. The Commission's order reduced customer accounts expense by \$88,765, while the Company contends the reduction should have been \$29,000. After reviewing

workpapers filed under ARM 38-2.14(6)-SI4520, the Commission finds that the Company's contention is correct; the \$88,765 amount is the entire amount of salaries attributable to this area rather than to the three additional people. Therefore, the Commission finds that customer accounts expense should be increased by \$59,765 and taxes adjusted accordingly.

13. GFG contends that gas cost included in Schedule 2 was not correctly transferred to Schedule 4. Gas expense on Schedule 4 is \$800 greater than that included on Schedule 2.

14. GFG also contends that the Commission neglected to include \$800 of rate case expense on Schedule 4. It appears that \$800 was accidentally included in "Gas Expense" rather than "Other O & M. " The Commission, therefore, finds that "Gas Expense" should be reduced by \$800 and "Other O & M" should be increased by \$800. This transfer corrects both contentions noted above.

15. The Company's final contention is that the Commission has failed to allow it the opportunity to recover all of the lifeline discount that it granted under Temporary Order No. 4602. This contention raises very complicated issues concerning the interaction of Temporary Order No. 4602 and Final Order No. 4602a and their respective lifeline rate structures. This necessitates the following involved discussion and analysis.

16. On January 28, 1980 this Commission issued Order No. 4602 granting the Company interim rate relief in the annual amount of \$275,311. Pursuant to stipulation of all parties, Order No. 4602 also implemented a lifeline rate structure for the Residential Class. Under that interim order consumers in the Residential Class were to receive a 25 percent discount for the first 15 Mcf of gas used in each billing period for the months December, January, February and March. As an additional element of that lifeline rate structure, consumers in the Residential Class were to continue to pay a \$5.25 service charge for the months of April through November but not for the discount months of December through March.

17. On May 5, 1980 this Commission Issued Order No. 4602a which constituted the Commission's Final Order in Docket No. 6701. Order No. 4602a granted the Company annual rate relief In the amount of \$414,235. Order No. 4602a also implemented a system-wide lifeline rate structure allowing all consumers a 25 percent discount for the first 15 Mcf of gas used in each billing period for the months of December through March. The order eliminated the \$5.25 service charge that had carried over into the Interim Order rate

structure and no service charge of any kind was considered in developing the system-wide lifeline rate structure contained in the Final Order.

18. The Company in its Motion to Reconsider argues that an effect of changing from the lifeline rate structure contained In the Interim Order (Order No. 4602) to the lifeline rate structure contained in the Final Order (Order No. 4602a) is that the Commission has not allowed the Company to recover \$371,000 of discount that it granted under the Interim Order during the discount period.

19. It is a basic principle of these types of lifeline rate structures that the utility be allowed to recover on an annual basis, discounts granted for consumption in the discount block during winter months. These discounts are to be recovered from higher rates in the nondiscount block and higher rates for all consumption in the nondiscount summer months. Consequently, revenues allowed a utility should be the same for any given 12 month period regardless of whether a lifeline rate structure is implemented or not, all other things remaining equal.

20. In the case of the Interim Order No. 4602 lifeline rate structure, part of the higher summer rates designed to make up winter discounts was to be the \$5.25 service charge.

21. In its Motion to Reconsider and supporting brief, the Company argues that the Final Order lifeline rate structure is designed to recover discounts at a much slower rate than the rate structure contained in the Interim Order. As a consequence, the Company contends that the Final Order does not allow it to recover \$371,000 in discounts granted under the Interim Order. The Company's calculations are based upon a comparison of May through December revenues using the Interim Order lifeline rate structure versus the Final Order lifeline rate structure.

22. Upon a closer examination of the interaction of the two different lifelines, the Commission agrees that the Final Order lifeline does recover discounts at a slower rate than the Interim Order lifeline was designed to. This results because the Final Order lifeline assumes smaller discounts than those actually allowed under the Interim Order. However, the Commission does not agree with the Company's method of calculating how much of the Interim Order lifeline discount is not recovered under the Final Order lifeline.

23. By its very nature a lifeline rate structure has a seasonal fluctuation in earnings; generating revenues at a faster rate (per Mcf) in the summer than in the winter. Revenue requirements from which lifeline rate structures are derived are in turn calculated

on an annual basis. Therefore, to attempt to evaluate a lifeline rate structure on anything other than a 12 month period will present a distorted picture when measuring revenues generated under a lifeline against the annual revenue requirement. Consequently, the Commission rejects the Company's use of a May through December period and adopts for the purposes of this order a 12-month period beginning January 28, 1980, the date on which the Commission implemented a lifeline rate structure for the Company.

24. The next step in properly evaluating the revenue impacts of changing from the Interim Order lifeline to the Final Order lifeline is to isolate the discounts and recoveries inherent in each rate structure. This can be most easily done by comparing a 12-month flow of the revenues generated by the lifeline rates actually in effect with a similar 12-month flow of revenues that would have been generated if no lifelines had been implemented and everything else remaining equal. Such a revenue flow analysis reveals the following:

| <u>Month</u>   | <u>Revenue with<br/>Appropriate<br/>Lifeline<br/>in Effect</u> | <u>Revenue if No<br/>Lifeline<br/>in Effect</u> | <u>Discount</u> | <u>Recovery</u> |                                 |
|----------------|--|---|-----------------|-----------------|---------------------------------|
| February, 1980 | \$ 2,535,346   | \$ 2,758,317                                    | \$222,971       |                 | Interim Order<br>4602 in Effect |
| March          | 2,619,598  | 2,830,003                                       | 210,405         |                 |                                 |
| April          | 2,235,567  | 2,119,739                                       |                 | \$115,828       |                                 |
| May            | 1,202,325  | 1,144,837                                       |                 | 57,488          |                                 |
| June           | 830,504  | 790,794   |                 | 39,710          |                                 |
| July           | 615,516  | 586,086   |                 | 29,430          |                                 |
| August         | 609,031  | 579,912   |                 | 29,119          |                                 |
| September      | 794,840  | 756,836   |                 | 38,004          | Final Order<br>4602a in Effect  |
| October        | 1,355,607  | 1,290,791                                       |                 | 64,816          |                                 |
| November       | 1,953,482  | 1,860,079                                       |                 | 93,403          |                                 |
| December       | 2,745,953  | 2,854,228                                       | 108,275         |                 |                                 |
| January, 1981  | 3,571,540  | 3,679,449                                       | 107,909         |                 |                                 |
| TOTALS         | \$21,069,309   | \$21,251,071                                    | \$649,560       | \$467,798       |                                 |

|                           |                   |
|---------------------------|-------------------|
| Revenue Without Lifelines | \$21,251,071      |
| Revenue With Lifelines    | <u>21,069,309</u> |
| Difference                | \$ 181,762        |
| <br>Discount              | <br>\$ 649,560    |
| Recovery                  | <u>467,798</u>    |
| Difference                | \$ 181,762        |

25. As was stated earlier in Finding No. 19 revenues allowed a utility during any given 12-month period should be the same regardless of whether a lifeline rate structure is implemented or not, all other things remaining equal. The revenue flow analysis in Finding No. 24 shows this not to be the case given the interaction of Interim Order No. 4602 and Final Order No. 4602a. Clearly the lifeline rate structure in Final Order 4602a fails to recover discounts granted under the lifeline rate structure in Interim Order No. 4602. Failure of the Commission to modify its Final Order to account for this situation would amount to having ordered the Company to grant lifeline discounts on the one hand without allowing the Company the opportunity to fully recover those discounts and thereby achieve its revenue requirement on the other hand.

26. However, the revenue flow analysis in Finding No. 24 fails to account for the effects of prorated service charges both at the front and tail end of the Interim Order No. 4602 period. Therefore, some adjustments are necessary to the \$181,762 figure derived from Finding No. 24.

27. Because all bills issued in February, 1980, had some consumption prorated back to the rate structure in effect prior to Interim Order No. 4602; the Company actually received \$50,503 in February beyond that shown in Finding No. 24.

$$20,057 \text{ customers} \times \$2.518 (\$5.25 \text{ minus tail block}) = \$50,503$$

It is fair to say that half of the consumption billed in February actually occurred in January under the old rate structure and therefore the service charge in the form of \$5.25 for the first Mcf was appropriate. However, the other half of consumption billed in February actually occurred in February which was a discount month under the Interim Order lifeline rate structure and therefore the service charge associated with that consumption (\$50,503 divided by 2) should be deducted from the discount calculated for February in Finding No. 24. Consequently, the \$181,762 figure should be reduced by \$25,252.

28. Also, because Final Order No. 4602a did not actually go into effect until May 5, 1980, through proration the Company collected an additional \$17,550 in service charges in May not accounted for in Finding No. 24.

$$20,057 \text{ customers} \times \$5.25 \times 5/30\text{ths} = \$17,550$$

However, again because Final Order No. 4602a went into effect on May 5, 1980 and not May 1, 1980 as assumed in Finding No. 24, this number must be reduced by \$11,204.

|  |           |
|--|-----------|
| 5 days May, Revenue under<br>4602a assumed in effect in Finding No. 24 | \$200,387 |
|--|-----------|

|   |                |
|---|----------------|
| Minus: 5 days May, Revenue<br>under 4602 actually in effect | <u>189,183</u> |
|   | 11,204         |

Therefore, the \$181,762 figure should be further reduced by \$6,346.

|                              |               |
|------------------------------|---------------|
| Service Charge 5 days in May | \$ 17,550     |
| 4602 vs. 4602a 5 days in May | <u>11,204</u> |
| Net Service Charge May       | 6,346         |

29. The Commission finds that \$159,164 is the amount of lifeline discounts granted under Interim Order No. 4602 that would not be recovered under Final Order No. 4602a.

|                               |               |
|-------------------------------|---------------|
| From Finding No. 24           | \$181,762     |
| Minus Service Charge February | <u>25,252</u> |
|                               | 156,510       |
| Minus Net Service Charge May  | <u>6,346</u>  |
|                               | 150,164       |

Therefore, the rates in Final Order No. 4602a should be modified to generate an additional \$150,164.

30. The Commission further finds that because this amount represents discounts granted only to the residential class during the months of February and March, 1980, the amount should be recovered from the residential class between June 1, 1980 and January 31, 1981.

31. Therefore, the Residential Class rate resulting from Final Order No. 4602a as amended by the changes in this order, should be increased by \$.092676 per Mcf for consumption during the period June 1, 1980 to January 31, 1981.

$\$150,164 \div 1,620,317$  (residential consumption for the period) = \$.092676 per Mcf

### CONCLUSIONS OF LAW

1. The Montana Public Service Commission has jurisdiction over all rates and charges levied for natural gas services rendered by the Great Falls Gas Company pursuant to Title 69, Chapter 3, MCA.



2. Upon motion for reconsideration and pursuant to ARM 38-2.2(64)-P2750, the Commission may change or modify an original order where the Commission is of the opinion that the original order is in any respect unjust or unwarranted.

3. The rates and rate structure flowing from Order No. 4602a as modified by this order are just, reasonable and not unjustly discriminatory.

### ORDER

THEREFORE, THE MONTANA PUBLIC SERVICE COMMISSION ORDERS  
THAT:

1. The Motion to Reconsider submitted by the Department of Defense, Malmstrom Air Force Base, dated May 14, 1980 is HEREBY DENIED.

2. The Motion to Reconsider submitted by the Great Falls Gas Company, dated May 8, 1980, is HEREBY GRANTED IN PART and DENIED IN PART

3 Order No. 4602a is hereby modified as set forth in the above of Findings of Fact.

4. The Great Falls Gas Company is to file revised tariff schedules in accordance with rates authorized in Order No. 4602a as that order is modified herein.

5. Such schedules shall be effective for service rendered on and after July 1, 1980.

DONE IN OPEN SESSION this 2nd day of June, 1980, by a vote of 5 – 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION.

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GORDON E. BOLLINGER, Chairman

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CLYDE JARVIS, Commissioner

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THOMAS J. SCHNEIDER, Commissioner

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JAMES R. SHEA, Commissioner

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GEORGE TURMAN, Commissioner

ATTEST:

Madeline L. Cottrill  
Secretary

(SEAL)

NOTE: You may be entitled to judicial review of the final decision in this matter. If no Motion for Reconsideration is filed, judicial review may be obtained by filing a petition for review within thirty (30) days from the service of this order. If a Motion for Reconsideration is filed, a Commission order is final for purpose of appeal upon the entry of a ruling on that motion, or upon the passage of ten (10) days following the filing of that motion. cf. the Montana Administrative Procedure Act, esp. Sec 2-4-702, MCA; and Commission Rules of Practice and Procedure, esp. 38-2.2(64)-P2750, ARM